

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of Xcel Energy's Petition for
Approval of a Renewable Energy Rider

ISSUE DATE: May 7, 2002

DOCKET NO. E-002/M-01-1479

ORDER APPROVING RENEWABLE
ENERGY RIDER AS REVISED,
CLARIFIED, AND MODIFIED

PROCEDURAL HISTORY

On October 1, 2001, Xcel Energy (Xcel or the Company) filed an implementation plan with the Commission pursuant to Minn. Stat. § 216B.169, subd. 2(b). In that filing, Xcel committed to extending the WindSource program that is currently operating in Colorado to Minnesota and to file a voluntary renewable energy rider before the end of 2001.

On December 31, 2001, Xcel filed its petition for a renewable energy rider pursuant to Minn. Stat. § 216B.169, subds. 2(a) and (b).

On February 6, 2002, the Minnesota Department of Commerce (the Department) filed comments on the rider.

On February 6, 2002, Minnesotans for an Energy Efficient Economy (ME3) filed comments on the Company's proposed rider.

On February 19, 2002, Xcel filed reply comments.

The Commission met to consider this matter on April 11, 2002.

FINDINGS AND CONCLUSIONS

I. XCEL'S PROPOSED GREEN PRICING RIDER

Minn. Stat. 216B.169, subd. 2(a) requires each utility to offer its customers an option to voluntarily purchase energy produced by renewable or high-efficiency, low emissions distributed generation.

Xcel's rider allows customers to pay a premium to support wind power through a monthly adjustment. The proposed rider will initially offer wind energy, but is designed to accommodate any available renewable resource, including low-head hydro or biomass offering. Participating customers will pay a monthly adjustment for each 100 kWh block of renewable energy they nominate. The rider will be available to any customer taking service under the Company's existing retail electric tariff schedules. Residential customers must commit to Xcel's rider for a minimum of 12 months. Commercial customers must commit for a minimum of 3 years.

Once Xcel has received a sufficient number of subscriptions, it will enter into a contract to purchase wind energy for the program. Customers will be billed according to the terms and rates of the approved rate schedules under which they are receiving service. The incremental price difference of renewable energy will then be added to a customer's bill through a separate line item or "adjustment."

Xcel's proposed pricing methodology adds the cost of the wind energy plus transmission costs, and the incremental administrative costs (marketing) associated with the wind purchase(s). It then nets that total against the embedded cost of energy from NSP's last rate case (Docket No. E-002/GR-92-1185). The resulting amount is then distributed on a kWh basis. Xcel stated that it expects the power supply cost for the wind energy to be \$.033/kWh, the rate set in the recent small wind tariff.

The actual renewable energy costs will be established once Xcel has a contract with a renewable power facility. The methodology for calculating the monthly adjustment per kWh also includes an annual true-up factor. The final result of this calculation is a net billable cost per kWh for the rider. This net billable cost has been rounded down from \$.02545/kWh to \$.025/kWh in order to facilitate marketing the program. For the first year of operation, customers will pay a monthly renewable energy adjustment of \$2.50 for each 100 kWh block of wind energy nominated.

II. PARTICULAR ISSUES ADDRESSED BY THE PARTIES

A. Small-Scale vs. Large-Scale Energy Resources

1. Xcel

Xcel listed developing small-scale resources in Minnesota as a goal of its green pricing program but, to date, has not secured power production contracts for this program.

Xcel gave several reasons (including the economic development accompanying small-scale generation and a faster start-up time for the program) why it wanted to make the WindSource purchases from small wind farms, at least initially, and diversify the production portfolio over time. The Company stated its willingness to incorporate large-source purchases into future requests for proposals but cautioned that requiring large scale renewable power contracts at this point could delay the initiation of the program.

2. The Department

The Department stated that the appropriate goal for green pricing is to allow a utility's customers to choose more reasonable, cost-effective renewable energy rather than higher priced renewable energy and noted that wind energy from large wind resources will be more competitive with non-renewable energy. On the related issue of projected participation in the program, the Department did not object to the Company's goal of 0.5 percent of its residential customers but stated that participation may be higher if Xcel uses more efficient wind resources and can offer the green energy at a lower premium.

The Department observed that since the Company has not yet secured contracts for wind energy for the green-pricing tariff, use of large-scale wind resources should still be an option. The Department acknowledged some benefit in allowing the Company to begin the program as it proposed (with the smaller scale generation) with larger scale generation phased in as the program progressed.

3. ME3

ME3 said that it fully supports the development of small-scale wind development and the benefits of this type of local development. ME3 also noted, however, that minimizing the premium for green pricing programs by using lower-priced large-scale wind developments will help make utility green pricing programs more successful.

4. Commission Analysis and Action

The Commission acknowledges the economic development benefits of developing small wind generation and also the marketing benefit of being able to distinguish the green pricing program for the public from the generic statutory renewable energy mandates. In addition, it appears that the Company is confident that it can get the program up and operating much faster beginning with the small wind generators.

At the same time, the Commission sees long term benefit in bringing larger scale renewable generation into the mix to reduce the green premium, thereby making the price of green energy more cost competitive. Therefore, the Commission will approve the Company's immediate plans to start the program with small scale generation but will direct the Company to keep the option open for including large, efficient sources of wind power, to achieve a mixture (blend) of differently sized renewable generators as the program develops.

B. Pricing Issues

1. The Department

The Department stated that Xcel's proposal distributes costs on a per kWh basis among all customers in the program as required by Minn. Stat. § 216B.169, subd. 2.

Regarding the Company's projected marketing costs, the Department noted that Xcel's estimated marketing cost is \$0.0032 per kWh, equivalent to 9.7 percent of Xcel's total estimated wind power costs. Because this ratio of marketing costs to total renewable power costs is within the range of the previously approved green-pricing riders (i.e. between 6.1 and 14 percent), the Department stated that Xcel's proposed marketing costs appear reasonable. The Department suggested that the level of actual marketing costs can be reviewed in practice.

Regarding capacity costs, the Department noted that Xcel's calculation of its proposed green-price premium deducts only the cost of energy, and not the cost of capacity, from its most recent rate case. Under this calculation, WindSource customers could be paying more than incremental costs for renewable energy. To be consistent with the methods used by Dakota Electric Association, Otter Tail Power, Minnesota Power and Interstate Power Company, the Department recommended that the Commission require Xcel to deduct both the cost of energy and capacity in its calculation of its green-price premium. The Department recommended that Xcel submit its revised green-price calculation after it enters into contract(s) with a vendor(s) to meet the projected wind energy needs of Minnesota's WindSource participants.

2. Xcel

Initially, Xcel did not agree with the Department's recommendation regarding capacity costs. Xcel argued that the capacity cost should not be deducted for the same reasons that green pricing customers should not be exempt from the fuel clause adjustment. (See Section F, 3 below.) According to Xcel, the goal of the program is to purchase renewable energy for participating customers over a period of time thereby increasing the amount of renewable energy generation in the state's and in Xcel's supply portfolio. The program is not designed to provide energy or capacity in any given hour of any given day. Also, Xcel argued that deducting only the energy and not the capacity costs is consistent with its reading of Minn. Stat. 216B.169, subd. 2 (c). Xcel did agree to file any contracts signed pursuant to the Rider with the Department for review.

At the hearing, the Department and the Company reached accord on how the Company will treat energy costs **and** capacity costs in determining the green power premium. They proposed that in calculating that premium, Xcel be required to deduct both the cost of energy established in its most recent rate case and the value assigned to the wind capacity in the contract(s) Xcel signs to secure the renewable power for the WindSource program.

3. Commission Analysis and Action

The Commission believes that green pricing customers should receive some level of capacity credit for three reasons: 1) it appears there is some capacity value in the wind contracts; 2) there are no immediate incremental capacity costs that result from adding small amounts of intermittent resources to Xcel's system, and 3) the actual impact of adding small increments of intermittent capacity to a system the size of Xcel's continues to be debated and is not fully understood

In addition, if there is no credit for capacity costs either to account for the capacity costs built into base rates, or to account for capacity or other benefits provided through the renewable resources, WindSource customers may be paying more than incremental cost for their renewable resource.

At the hearing, the Department and the Company proposed that in calculating that premium, Xcel be required to deduct both the cost of energy established in its most recent rate case and the capacity value of the wind in the contract(s) Xcel signs to secure renewable power for the WindSource program.

The Commission finds that this approach is reasonable and will approve it.

C. Assurance of One-Time Sale

1. The Department

The Department noted that one of the findings it must make in order to certify a power supply or supplies as eligible to satisfy customer requirements under Minn. Stat. § 216B.169 is that the sales arrangements of energy from the supplies are such that the power supply is only sold once to retail consumers. To provide that assurance, the Department asked that Commission order Xcel to add the following statement to its WindSource tariff:

The sales arrangements of renewable energy from the WindSource program supplies are such that the power supply is sold only once to retail consumers.

2. Xcel

In reply comments, Xcel revised its renewable rider to include language proposed by the Department ensuring that green power will only be sold once to retail customers.

3. Commission Analysis and Action

The Commission finds that this additional language is reasonable and will approve it.

D. Just and Reasonable Rates

1. The Department

The Department initially stated that Xcel's green price tariff would result in just and reasonable rates if the Company utilized efficient wind sources and deducted the cost of capacity from the calculation of the green price. Once Xcel secures contracts for the program, the Department stated, it will be able to review the actual contracts and the proposed green price.

Subsequently, the Department acknowledged that starting with small-scale producers, with larger-scale projects blending in as the program progresses, would also be acceptable, i.e. produce just and reasonable rates.

2. Xcel

The Company stated that the Commission clearly has the discretion to consider numerous state goals in addition to price alone in passing on the contract price proposed for this (essentially small-scale) supply.

3. The Commission Analysis and Action

The Company finds that, as modified in this Order, Xcel's green price tariff will result in just and reasonable rates.

E. Tracker Account/Deferred Recovery

Xcel agreed with the Department's clarification and interpretation of the proposed "true-up" accounting (more similar to a "tracker" account with no true-up) as follows:

The true-up cannot be used to change rates or for deferred accounting purposes; instead, it will be used to track how closely renewable energy rates recover costs.

The Commission finds that this clarification is reasonable and will accept it.

F. Exemption from the Fuel Clause Adjustment (FCA)

1. The Department

The Department noted that under Xcel's proposal the participant's energy use would be subject to the fuel clause in addition to the green-price premium of \$2.50 per 100 kWh. The Department favored exempting green energy customers from the fuel clause, as proposed by Alliant Energy in its recent green-price filing in Docket No. E-001/M-01-1954.

The Department argued that customers who choose to use renewable energy should not pay for rising costs of non-renewable fuels (i.e. rising costs beyond those costs as set in the rate case), when they did not sign up to use non-renewable fuels.

The Department stated that it was unclear whether Xcel's billing system could accommodate exempting the fuel used by green customers from the fuel clause. The Department recommended that Xcel discuss the feasibility of using this approach in reply comments.

2. ME3

ME3 fully supports the proposal to exempt customers, who have opted to buy the higher priced renewable energy, from the fuel clause adjustment charges. ME3 noted that the U.S. Department of Energy's National Renewable Energy Laboratory (NREL) has reported the best practices in utility green pricing programs and states that one important way to create value for green pricing customers is to protect those customers from fuel price increases (fuel clause adjustment).

Like the Department, ME3 noted that green customers have opted to purchase less energy from non-renewable sources. ME3 argued that the green customer (in proportion to the renewable energy purchased/ non-renewable **not** purchased) should, in fairness, not be required to bear the cost of rises in non-renewable fuels.

3. Xcel

Xcel objected that exempting green customers from the fuel clause was inconsistent with the program/product that it is offering.¹ The Company noted that its WindSource Program is not a renewable energy program only since its wind production is not backed up by non-wind, renewable generation but instead is backed up by the short-term purchases of non-renewable generation, purchases included in the FCA. Xcel argued that exempting WindSource participants from the FCA will shift costs incurred to serve these participants away from the participants and towards non-participating customers.

4. Commission Analysis and Action

The Commission finds that the equities weigh in favor of exempting green customers from the fuel clause and that the rates resulting from exempting green customers from the fuel clause will, as a consequence, be just and reasonable.

¹ Xcel noted that Interstate Power Company's (Alliant's) renewable rider in Docket No. E-001/M-01-1954 differs from Xcel's WindSource Program because Interstate's program is not backed up by non-renewable generation but by other renewable generation (energy generated by landfill gas).

To the extent customers pay the green premium, these customers would clearly be paying twice for a portion of their load if they were also subject to the fuel clause. The Commission acknowledges that there may be times when no green-generated energy is flowing through the system. During these times, continuation of the green customer's service is due to Xcel's fossil-fuel system and hence the green customer theoretically may be said to "owe" something towards the maintenance of that system. However, since over time the total green power inputs to the system would equal the amount contracted for by green customers, any intermittent instances of "free ride" (when green power was not being generated) would tend to be offset by instances in which more green energy is being placed into the system than green customers were using, with the balance being available for use by non-green customers.

Further, the actual impact of any "free rides" by green customers on a system maintained by Xcel's other (non-green) customers appears quite small compared with the double-payment burden unquestionably placed on green customers if they were required to bear fuel clause charges. Finally, it appears that any burden placed on non-green customers by exempting green customers from the fuel clause in proportion to their green usage would be minuscule due to the very small number of green customers compared with the number of non-green customers.

The Commission does not disregard the possibility that exempting green customers from fuel clause may harm non-green customers, however, and will direct Xcel to monitor the exemption and report to the Commission if it finds that the exemption is having a material adverse impact on its non-green customers.

G. Exemptions From the Emissions Reduction Rider

1. ME3

ME3 stated that green power customers should be exempted, on a pro rata basis, from any fees charged under an emissions reduction rider. ME3 cited as precedent the exemption given customers of PSCo's (Xcel) WindSource product in Colorado. In addition to receiving fuel price protection, WindSource customers in Colorado are exempt from paying an "air quality improvement rider"--essentially, pro rata exemption from fees for emissions control equipment on the coal-fired power plants.

2. Xcel

Xcel agreed that Colorado's WindSource (green pricing) customers are exempted from the Colorado emissions' riders as well as the FCA. However, this exemption is the result of settlement negotiations. The pricing for the WindSource program in Colorado was not based solely on costs, but also included a customer-value analysis and the resulting negotiated settlement. Thus, the Colorado offering is inconsistent with the principle that all of the incremental costs attributable to a renewable energy rider are to be recovered from program participants.

3. The Commission's Analysis and Action

Xcel does not have an emissions reduction rider proposed or approved at this time. For this reason, consideration of exempting green pricing customers from such a rider is premature.

Xcel has indicated, however, that it expects to request Commission approval of an emissions reduction rider in early July 2002. To make sure this issue is considered in the proper context and not lost, the Commission will require Xcel to raise the issue of exempting green pricing customers from fees charged under the rider at the time Xcel files an emissions reduction rider for approval.

H. Transmission Costs

1. Xcel

In presenting its pricing methodology for the green energy surcharge, Xcel included a line item for incremental transmission costs, but set that amount at zero because it anticipates that the wind energy contracted or will be connected to Xcel's existing transmission system and will, therefore, incur no incremental transmission costs. The Company noted, however, that Minn. Stat. § 216B.1645 allows the recovery of transmission investments related to renewable energy through a Commission approved rider so that recovering any incremental transmission costs associated with the power purchase agreements for this offering through such an adjustment may be appropriate.

2. The Department

The Department clarified that the green-pricing provision (Minn. Stat. § 216B.169, subd. 2) states that the rate should only recover the incremental costs of generating or purchasing renewable energy compared to the costs of generating or purchasing an equivalent amount of nonrenewable energy. The Department stated that since Xcel has not indicated that there will be any incremental transmission costs associated with the Rider, it is premature to discuss recovery of transmission costs at this time.

3. Xcel's Response

In its response, Xcel agreed that because the transmission costs proposed in the current premium are zero, the Commission does not need to allow recovery of these costs at this time. Xcel stated that, as a consequence, further discussion of this issue in this docket is unnecessary. The Company noted, however, that certain transmission costs to support renewable energy may be recoverable under a separate statutory provision allowing recovery through an automatic recovery mechanism (Minn. Stat. § 216B.1645) and therefore did not agree with the Department's statement that these amounts are already built into base rates.

4. The Commission's Analysis and Action

The only transmission costs that can be recovered as part of the renewable energy rider are *incremental* transmission costs, i.e. costs associated with delivering the renewable energy to Xcel's system. If Xcel had any such costs it would be allowed to recover them. In this case, the green energy is delivered strictly using the Company's existing transmission system and none of the costs of that system, of course, may be recovered through the renewable rider. See Minn. Stat. § 216B.1645.

I. Tying Marketing Costs to Number of kWh Sold

1. ME3

ME3 recommended that the Commission consider tying approval of marketing costs to the number of kWh sold. ME3 stated that if a utility succeeds in selling green power to large commercial and industrial customers, marketing expenditures should be lower than those needed to market the same amount of energy to many smaller, residential customers. ME3 urged the Commission to consider mechanisms for larger purchasers of green power to see those lower marketing costs reflected in lower green premiums.

2. Xcel

Xcel argued that ME3's proposal was unnecessary because the Commission's ability to review the prudence of marketing costs already ensures appropriate cost control with respect to the amount of kWh sold. The Company also suggested that the proposal could inhibit the Company's marketing costs aimed at less cost-effective residential customers, on the one hand, while actually restricting the Commission's review of appropriate costs on the other.

Xcel suggested that ME3's proposal be considered further in future proceedings if concerns develop about the program's marketing costs.

3. Commission Analysis and Action

During the startup period for any new program, marketing expenditures are typically higher than when a program reaches maturity. Tying approval of marketing costs to kWh sold as this program is just getting under way could be counter-productive, causing lower than optimal marketing expenditures and lower participation rates.

Still, the concept is interesting and may benefit from further development for possible application at a later stage of the program. The Commission will defer further consideration of this concept at this time until specific mechanisms are before the Commission. The Commission will require Xcel to discuss potential mechanisms for tying approval of marketing costs to the number of kWh sold in its annual report to be filed each May, beginning in 2003.

III. SUMMARY OF COMMISSION ACTION

The Commission will approve Xcel's Voluntary Renewable Rider as revised on February 19, 2002 and further clarified and modified as discussed in Part II and Ordering Paragraphs 2-9 of this Order.

ORDER

1. The Commission hereby approves Xcel's Voluntary Renewable Rider, as revised and filed on February 19, 2002 and further clarified and modified by the following Ordering Paragraphs.
2. The Commission accepts Xcel's clarifications:
 - 1) that it will not use the tracker account to change rates or for deferred accounting purposes; and
 - 2) that changes to the level of the pricing adjustment in the rider will be done through a new miscellaneous rate filing.
3. Xcel shall maintain the option of using large, efficient sources of wind power for its green pricing program, as discussed above in Part II, A, 4.
4. In determining its green-price premium, Xcel shall deduct both the cost of energy from its most recent rate case and the capacity value of the wind in the wind contract to be filed by Xcel.
5. Xcel shall exempt customers that purchase energy under the renewable energy rider from all fossil-fuel cost adjustments on a pro-rata basis based on the amount of eligible renewable energy purchased by the customer under the rider. Xcel shall file a revised fuel adjustment clause rider to reflect this decision. Xcel is urged to look at the fuel clause issues and submit a filing if it finds that the exemption has a material impact on other ratepayers.
6. Xcel is allowed to recover any transmission costs associated with delivering the renewable energy to Xcel's system through the renewable rider, but may not recover Xcel's own transmission costs through the renewable rider at this time.
7. Xcel shall raise the issue of exemption of customers that purchase energy under the renewable energy rider from any charges under any future emissions reductions rider at the time Xcel files an emissions reduction rider with the Commission for approval.

8. Within 60 days after Xcel has entered into contract(s) with vendor(s) to meet the projected wind energy needs of the Minnesota WindSource participants, the Company shall file its revised green-price calculation for review by the Department;
9. In its annual report to be filed each May 1 (beginning in 2003), Xcel shall include the following:
 - a. reporting on the true-up and tracker account;
 - b. actual marketing and administrative costs;
 - c. program participation rates and customer participation levels;
 - d. discussion of potential mechanisms to allow savings from larger purchases of green power to flow back to those customers making these purchases; and
 - e. discussion of potential mechanisms for tying approval of marketing costs to the number of kWh sold.
10. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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